

**Policy, Regulatory and Legal Constraints to Promoting
high-value timber product exports from Ghana**

September 2003



Sigma One Corporation

**Policy, Regulatory and Legal Constraints to Promoting
high-value timber product exports from Ghana**

Submitted to:

**U.S. Agency for International Development
Mission to Ghana**

for:

**Trade and Investment Reform Program (TIRP)
Improved Policy Reform and Financial Intermediation
USAID Contract Number: 641-C-00-98-00229**

by:

Hamilton Resources and Consulting p.l.c.

**Under a Purchase Order from
Sigma One Corporation**

In fulfillment of the following milestones:

- 2.23 A Strategy brief circulated to achieve consensus on timber and wood
export policies**

POLICY, REGULATORY AND LEGAL CONSTRAINTS
TO PROMOTING
HIGH-VALUE TIMBER PRODUCT EXPORTS
FROM GHANA

FINAL DRAFT REPORT

Prepared By

HAMILTON RESOURCES AND CONSULTING, p.l.c.

For

Sigma One Corporation

Improved Policy Reform and Financial Intermediation

Trade and Investment Reform Program

Contract # 641-C-00-98-00229

September, 2003

TABLE OF CONTENTS

| | |
|--|-----------|
| EXECUTIVE SUMMARY | i |
| 1.0 INTRODUCTION | 1 |
| 2.0 RELEVANT LITERATURE REVIEW OF RECENT SIMILAR STUDIES | 3 |
| 3.0 IDENTIFIED GENERAL AND INDUSTRY SPECIFIC IMPEDIMENTS | 5 |
| 4.0 CONCLUSION | 15 |
| 5.0 SUGGESTED ACTIONS TO REMOVE CONSTRAINTS | 17 |
| Annex 1: ACRONYMS | 19 |
| Annex 2: LIST OF MAJOR ACTIVITIES UNDERTAKEN | 20 |
| Annex 3: LIST OF STAKEHOLDERS AND OTHER PERSONS CONTACTED | 21 |
| Annex 4: REFERENCES | 22 |

EXECUTIVE SUMMARY

Ministry of Lands and Forestry's Forestry Development Master Plan (1996/2020) has, among others, the objective of promoting high-value wood product exports. To date, this objective has not been met, as the level of value-added exports (particularly from the tertiary sub-sector) has remained virtually unchanged since the inception of the plan. In investigating the causes of poor performance, this study focuses on policy, regulatory and legislative impediments preventing the promotion of high value-added wood product exports.

Recent studies have shown that the tertiary sub-sector of the forest industry is dying. A number of enterprise level constraints, including the use of inappropriate equipment, lack of skills and low-level exposure to international markets, have been assigned as immediate causes leading to a weakening of the strength (including financial) of enterprises to take advantage of market opportunities. These are, in turn, attributed to an inappropriate operating environment.

At the national level, macroeconomic instability creating a disincentive to the export drive; high nominal interest rates negatively impacting already cash flow-tight operators; financial sector policies that do not differentiate between short-term and long-term lending and make banks shy away from the forest sector; and missing opportunities for inducing investment in the tertiary sub-sector, are cited as key factors hampering the realization of tertiary operators' potential. These exist, while the Bank of Ghana has between 1991 and 1994 totally liberalized retention of foreign exchange by exporters.

Specific mention is made of the likely choice of labor intensive technologies that require heavy capital outlays to ensure high labor productivity; but strong labor unions experienced in the wood industry and their self-seeking interests can diminish the investment initiative.

Regulatory impediments that may hamper a quick short-term response from tertiary operators are export documentation, sometimes, customs duty draw back procedures and compliance with Immigrant Quota Regulations that may not be compatible with specific needs of individual enterprises.

From the tertiary operators' perspective, inadequate consultation between government and tertiary operators leave policy on value-added processing unclear. Policy failures emerging suggest that, though government intentions may be good, the approach to implementing them is not appropriate. For example, inappropriate policies (leading to market distortion) have caused to emerge on the domestic market of chain saw lumber to which tertiary operators are fixated. Government, on the other hand, is bent on pursuing policy reforms that will substitute formal sector (sawmill) lumber, but is not addressing the issue of market distortion created by chain saw lumber. From Ministry of Trade and Industry's perspective, the domestic trade outside forest gates must be liberalized while forest policy concentrates on market instruments, and maintain a system of the forest industry tracking its source of raw material.

Institutional regulation of the timber trade is comprehensive, cutting across all levels of integration in the forest industry. The Forestry Commission defends its role on the basis of a weak and undisciplined industry. But tertiary operators are quick to separate a

strategic role for the Commission in standards enforcement, checking conformity to contract terms and export promotion, the institution's role in regulating marketing and quality control which are identified to bring no value-added to the business. These are regarded as functions expertly provided by the enterprises' own management. While operators resent a 3% Forestry Commission on exports, TIDD's roles in these areas are considered to impede and, at times, bring costs to tertiary operators.

A joint-role in market promotion is seen by operators as a stop-gap measure for the weakness of Furniture And Wood products Association of Ghana (FAWAG), their trade association. The Federated Association of Ghanaian Exporters (FAGE) is an umbrella organization of Ghanaian trade associations, whose network (FAWAG) has failed to make maximum use of as a result of its limited capacity.

The weak training infrastructure and limited research into utilization of substitute species respectively create technical management gaps and limited skills in processing Lesser Used Species (LUS). These combine to limit efficiency and increase costs of processing LUS. The limited utilization opportunities, and the consequent low demand, lead timber harvesters to concentrate on a limited number of species that are traditionally known on the market. Forest regulations, on the other hand, do not compel harvesters to harvest trees that are allocated for harvesting.

Short-term recommendations made focus on policy reforms, re-tooling of tertiary operators, the identification of a core self-seeking tertiary operators to link up with overseas buyers and a supportive export promotion drive. Medium-term recommendations focus on macro-economic stability, institutional reforms in both public and private sectors and legislative review.

1.0 INTRODUCTION

1.1 BACKGROUND

During the implementation of Ghana's timber export rehabilitation project over the 1984-88 period, one company - Scanstyle (Mim) Limited - emerged as the sole exporter of wooden furniture components to the European market. It has sustained and improved upon its export performance, diversifying its markets and species. AG Timbers Limited had following its initial failures in the mouldings and profiles market, built upon its lessons of experience and is today a leading exporter in value-added product sales. Ministry of lands and Forestry's Forestry Development Master Plan, 1996-2020, had the major objectives of bringing about an industrial restructuring based on a "lower volume - higher value" strategy.

Between 1997 and 2002, total forest product export declined from US\$230m to approximately US\$195 million in 2002. In the same period, the number of furniture exporters declined from 6 to 4, one constantly contributing over 90% of total volume and over 95% of value. The number of exporters of processed lumber and mouldings increased from 27 to 37 in the period, an increase of 10 out of an estimated 80 potential (new entrant) exporters. Furniture exports in 2002 contributed a mere 4% and, together with processed lumber, 15% of total export value in 2002. The master plan objective, to say the least, is far from emerging over the horizon.

Under this study, the purpose of the Terms of Reference of the Consultants is to abstract from the general issues of forest depletion, and to focus on investigating the domestic conditions necessary to bring about the maximum value from Ghana's timber species. The fundamental assumption adopted under the study's methodology is that markets exist for Ghana's species.

1.2 SUMMARY OF KEY ACTIVITIES

This brief is the output of a range of activities broadly covering the following:

- (a) Interviews and consultations with key players in the tertiary sub-sector of the forest industry;
- (b) A review of recent similar studies addressing the issues of policy, institutions regulations and legislation impacting the tertiary operators;
- (c) Discussions with key, public sector institutions in the forest and trade sectors from whose perspectives policy, regulations and legislations have been assessed; and
- (d) Trade Associations of relevance to tertiary wood product exports.

These activities followed a logical sequence of identifying public sector policy perspectives and direction, as well as the rationale behind policy; administering questionnaires on the tertiary industry to ascertain their interaction, if any, with policy formulation and impact of policy, regulations and legislation on their business

performance; and focusing on emerging issues in a second-level discussion with both operators and policy-making institutions.

Between these activities, relevant studies recently conducted in the sector were researched into to facilitate the process of consultations and development of the study's focus. (Reference: List of Activities as **Annex 2**). This document is the output of the above-mentioned activities.

2.0 RELEVANT LITERATURE REVIEW OF RECENT SIMILAR STUDIES

In response to Ministry of Lands and Forestry's Forestry Development Master Plan (1996-2020) and subsequent forest policy developments and industry performance, some studies have been conducted on resolving conflicts of stakeholder group interests, improving understanding of the sector to aid policy formulation and developing export trade in Lesser Used Species (LUS) to reduce pressure on the forest resource. The studies reviewed are:

- (a) A UNIDO study analyzing the forest sector conducted by the UNIDO in 1996 on the initiatives of Ministry of Trade and Industry (MoTI);
- (b) A Forest Sector study conducted by Association of Ghana Industries (AGI) and sponsored by USAID in 1996;
- (c) A synthesis study conducted by AGI on the initiatives of MoTI, and based on the earlier UNIDO and AGI-USAID sponsored study;
- (d) A 1997 ITTO sponsored study on the impact of increased utilization of LUS;
- (e) Various project evaluation reports of the EU-Assisted Wood Sector Development Programme, (1999-2001) and
- (f) The DFID-assisted study on Ghana's Wood Industry and the log export ban.

References have also been made to other studies with sectional relevance for the current work and are appropriately acknowledged in the text.

The AGI studies recognized the threat of forest depletion as the key issue and, within that context, sought to develop a consensus among conflicting stakeholder group interests. Focusing on human resource development, technology, marketing and financial aspects of the industry, it made broad recommendations to address policy failures and institutional weaknesses that adversely affected timber and wood utilisation. Starting from a diagnosis of inefficiency at the various levels of forest integration and institutions, the UNIDO study focused on deregulating the timber trade in the framework of a pure national trade policy and examining possible options. The AGI synthesis study reconciled the earlier AGI-UNIDO studies and proposed specific policy strategies and actions to address failure to realize MLF's Forestry Master Plan objectives.

While little happened with the studies' recommendations, three important studies bearing some relationships with each other emerged between 1997 and 2001. The first, ITTO sponsored study investigated limitations to and explored opportunities for the utilization of LUS, while the second built up the experience with developing incentives among wood product exporters to diversify into the use of LUS and to develop technical skills for that purpose. The third examined past forest policy instruments and provided answers to why over-harvesting is a constant feature of Ghana's forest industry and the industrial re-structuring of the wood sector has not happened, despite a decade of policy statements and actions to address the two issues.

The conclusion from these studies - as may be relevant to tertiary operators - is that, in the context of a complete production-marketing chain, policies must be right to direct the

wood material to its most desirable uses; institutions should not comprise the regulation of commercial trade; and that the tertiary sub-sector will require retooling and training in skills to develop, expand and sustain higher value-added exports in a conducive operating environment.

3.0 IDENTIFIED GENERAL AND INDUSTRY SPECIFIC IMPEDIMENTS

3.1 CONCEPT OF VALUE ADDITION

3.1.1 Theoretical and practical definitions

Theoretically, value addition underlies the passing of material from one stage of processing to the other. A common understanding has been forged under this study with tertiary operators to consider value addition as additional real resources generated through further processing over and above any material with a value determined by its highest valued market. Higher value addition would generally result from greater technology content (capital, technical skills and accompanying management) of the product. This is more associated with the tertiary stage of processing than with primary and secondary stages of processing (see Box 1 for definitions).

In the value chain, established reliable delivery dates command a premium and need to be brought into the definition of value addition. In tertiary wood product exports, efficiency and conformity to delivery dates will, therefore, be the criteria for assessing value-added.

3.1.2 Size of participation in higher value added processing

Ghana's tertiary wood sub-sector is identified under the Ghana Wood Industry Study as a dying industry. Numbers in the formal and informal sectors are estimated to have declined by 50% and over 60%, respectively, between 1990 and 1999. (Forestry Commission, 2001.) This emerging phenomenon correlates well with the stagnated share of value-added exports in total forest product exports. The Ghana Wood Industry Study, on the other hand, identifies about 50 companies that have the potential to export high value-added wood products. Diagnosis of constraints undertaken in this study examines two stakeholder perspectives, namely that of current higher value-added exporters who are unable to sustain and improve upon current export levels, and that of potential enterprises with the potential to export but which have not entered - or are unable to enter - the export market at all.

Box 1:

Definition of the various levels of integration in processing

Primary processing – The sawing of logs in preparation for further processing, such as boules, boards for kiln drying, and flitches for veneer slicing, rotary peeling and drying of veneer in preparation for plywood manufacture and the manufacture of particle boards.

Secondary processing Kiln drying of lumber, plywood manufacture, block board manufacture, veneer slicing and non-decorative veneering of particle boards.

Tertiary processing -The manufacture of mouldings, flooring, parquetry, furniture manufacturing, window and door manufacture, veneer applications, turnery, wooden toys, handicrafts, etc.

Source: Ghana Wood Industry and Log Export Ban Study; F. Commission, 2001

3.1.3 Enterprise level constraints facing tertiary operators

Constraints articulated by tertiary operators in the Ghana Wood Industry are the following:

- (a) Lack of design skills;
- (b) Inappropriate equipment;
- (c) Lack of middle-level skills;
- (d) Inadequate capacity in industrial engineering; and
- (e) Limited exposure to overseas equipment and product markets.

The collective effect of these constraints has been the inadequate strength (including financial) of many enterprises to take advantage of market opportunities. Weaknesses of Furniture and Wood Products Association of Ghana (FAWAG) apart, these constraints largely have resulted from deficiencies in policies and institutional failures.

3.2 CONSTRAINTS POSED BY THE GENERAL OPERATING ENVIRONMENT OF GHANA'S EXPORT SECTOR

The general impediments constraining exports of high value-added wood products are located in the investment and macroeconomic climates and the financial sector policy. On the side of regulations, there are the impediments created by trade documentation and, sometimes, Customs Excise and Preventive Service (CEPS) duty drawback procedures.

3.2.1 National policy issues

(a) Macro-economic environment

For companies exporting, the macro-economic environment has not been stable. Currency over-valuation has intermittently been an issue, creating a disincentive for exporters to export. This results when domestic prices increase without a corresponding adjustment in exchange rates. Exporters with alternative domestic market outlets develop a preference to sell on this market rather than export. The condition will also make it cheaper to import than to export. The trend over the last decade was a mixture of fortunes.

Nominal interest rates are a major constraint to business cash flows, value-added wood product manufactures being no exception. Coming from an initial weak financial base, the majority of producers are unable to experience an export "take-off". From one firm's experience, a 25% interest rate on donor assistance obtained in January 2003 increased to 29% in August.¹ Generally, the financial sector will seek to adjust nominal interest rates to maintain the level of real interest rates. Keeping a constant real interest rate level and maintaining the short-term financial solvency of enterprises constitutes a dilemma for policymakers.

(b) Financial sector policy

Government competes with the private sector in the financial market, and crowds out the latter in access to credit. Further, lending by the financial sector is largely characterized

¹ This is a typical case of the borrower assuming an exchange rate risk that is eventually triggered by an increase in the general price levels, that in turn brings about an exchange rate adjustment.

by short-term lending. The Bank of Ghana sets “liquidity limits” of banks, and they are free to determine their lending priorities. Sector lending therefore is more determined by the level of persuasion that sector opportunities command over banks. Presently, banks prefer to place import financing high on its list of priorities. Credit opportunities for exporters, and for that matter high value wood exports, continue to be missed so long as the policy appeal falls short of the strength of persuasion from current banks’ priority sectors.²

Development banking services that can offer capitalization opportunities to tertiary processors is, more so, very limited. Investment plans of operators are largely exposed to borrowing at short-term interest rates that are in excess of 25%. In one case, a tertiary operator had financed investment in kiln drying from donor funds (grant) that were tied to government’s current budget, requiring an amortization of the loan in one year. The resulting accumulated (and capitalized) interest charges resulted in re-mortgaging of the company’s assets with the Non-Performing Assets Recovery Trust in 1991.

The Bank of Ghana has the intention to introduce a “universal” banking policy under which banks can expand its range of banking services to include development banking. This policy must address the issue of long-term lending rates to make an impact. This may also call for re-structuring of banks’ equity capital.³

Tertiary operators do not see any difference in conditions between seeking bank guarantees to access external loans and borrowing in local currencies, explaining that the “stringent conditions of providing collateral” have largely limited their access. Banks have also found less attraction in the forest sector largely because of unclear or unstable policy, in this case their views coinciding with views of tertiary operators.

(c) Investment policy

In the mid-1980s, the Ministry of Lands and Forestry, in collaboration with the Bank of Ghana, managed a process under which timber firms reinvested and re-tooled through offshore credits backed by a 30% external account (outside a 20% export retention account held by the exporter). Sustainability of the export recovery in the timber industry from the mid-1980s came from this source of financing. This arrangement preceded - and possibly influenced - the adoption in Section 27 of the Ghana Investment Promotion Center Act, 1994 (Act 478) of unconditional “Investment guarantees, transfers of capital, profits and dividends.”

Bank of Ghana’s foreign exchange regulatory reforms pursued between 1991 and 1994 now permit exporters to keep export proceeds in a convertible account at local banks and

² The 1996 AGI Timber Studies report of a lack of credibility among timber firms, projects, loan defaults and lack of clarity and certainty in the minds of bankers about government sector policy towards the timber industry.

³ The willingness of Merchant Banks to cooperate with NIB in development banking packages and the requirement for NIB to increase its equity to make them work is cited in one study on the wood sector. A possible divestiture of NIB was considered as an alternative with good prospects for lending to the wood sector. (Reference: “Timber Sector Studies”; Association of Ghana Industries, 1996)

access to 100% proceeds. These no longer make it necessary to retain the export retention and external account schemes, which are now abolished.⁴

In respect of transfers of capital, profits and dividends the Bank of Ghana only requires sight-certified external auditors' accounts of applicants and agreements with GIPC.

The Timber Export Rehabilitation Project (1984-88) provided some US\$120 million to the private sector. Between 1992 and 1999, the forest industry financed - largely from non-aid sources - a capital investment to the tune of US\$127 million, which largely went into expansion of secondary processing (Forestry Commission, 2001). This investment was on the decline after 1997, the lowest ebb in 1999 being one-third of the 1996 level.

Until 2002, GIPC exercised the mandate for approval of investments in the forest sector. Investment policy favored industries sited in rural areas by offering tax rebates to investors; but a tertiary enterprise sited in Accra might not enjoy this incentive. MLF regards the incentive scheme as inappropriate as location of industries close to forests (rural areas) creates a potential pressure on the forest resource by encouraging enterprises to be sited close to forests. The Timber Resources Management Amendment Act, 2002 (Act 617) now mandates the FC to make prior recommendations for approval of investments and the grant of incentives. The Act also requires FC to accord priorities to promoting strategic investments.⁵

The missing opportunities for raising and sustaining tertiary sector investment is an issue only now coming to the fore. Beside the direct sector intervention, maintaining macro-economic stability and addressing labor and related issues discussed in the next section, remain big challenges to maintaining a healthy investment climate.

(d) Labor, employment, technology and "Immigrant Quota" regulations

Circumstances of Ghana's wood industry – low-cost labor, forests and the strong desire of policy makers to bring about improvements in livelihoods - readily suggest labor-intensive technologies as the optimal choice for tertiary operators. High labor-capital ratios, however, are not synonymous with high output-labor ratios, because high labor productivity ratings demand investments in skills development to accompany the use of precision equipment that give the best quality output to engineered wood products. Thus, using labor-intensive methods to achieve high outputs per labor can be expensive in terms of capital outlays. Financing these is currently beyond the resource limits of the majority of tertiary operators.

The best alternative will be to procure external technical personnel from the "market" who have both technical management and hands-on training capabilities to transfer know-how to Ghanaian artisan and operator grades. These personnel will be required to assume strategic, middle-level management positions where they can work with their

⁴ Ref: Bank of Ghana Circulars to Banks, including BG/FO/92/12 of 05/05/92 Repatriation of Export Retention Funds) and others (BG/FO/92...94)

⁵ This provision, though belated, establishes some consistency with MLF's Forestry Development Master Plan objective of promoting higher value added processing.

local counterparts.⁶ Immigrant Quota Regulations that fix “quotas” and specify positions, by their nature, present a potential constraint to meeting these objectives that must be approached on a case-by-case basis.

Finally, the issue of declining real wage rates that cause labor to put pressure for nominal wage increases in the framework of existing collective bargaining agreements, and the culture of labor’s insistence on payment of annual bonus at Christmas and the payment of such bonuses by companies – without regard to productivity or level of profit (or loss) – can alter the incentive equation for beginners.

(e) Export trade documentation

Act 503 recognizes compliance by exporters with other sector procedures. Compliance with CEPS Bills of Entry requirements and TIDD’s port inspection procedures for wood exports involves a duplication of fundamental procedures.⁷ These make the option of a one-step procedure more attractive. However, this option has to reckon with the constraint of technical proficiency in forestry among CEPS staff that will allow the latter to assume responsibility for a one-step port procedure.

(e) Import procedures

Ministry of Trade and Industry and CEPS have streamlined general import procedures in response to importers/re-exporters complaints extending to the late 1990s. However, in respect of customs duty drawback procedures, which have a strong influence on tertiary processors’ short-term cash flow, “quick access” can be rare. Discussions with non-forestry stakeholders in the export business point to a quicker access, sometimes a maximum of four weeks, if funds are sourced from external aid resources provided specifically for the drawback scheme.⁸ Where, on the other hand, CEPS is required to meet claims from its allocated government budget, it could take up to six months.

3.3 INDUSTRY SPECIFIC CONSTRAINTS

3.3.1 Policy Formulation

Key players in the tertiary forestry sub-sector generally believe that government policies on forestry, and especially those affecting tertiary processors, are unstable. Lack of consultation with tertiary operators is also cited as a reason for many policy failures. To tertiary operators, policies are very often unclear as to the real intentions of promoting value-added production and export.

⁶ Scanstyle (Mim) Limited employed this strategy, and it paid off.

⁷ The TIDD carries a mill inspection prior to transport of goods to the port. Its second inspection at the port is for certification of grade, not volume.

⁸ The period of four weeks is reckoned to include the time the applicant takes to assemble documentation – copies of clean bill of entries and proof of tax and other statutory payments – to support an application

3.3.2 Price distortions

Forest policy is characterized by low timber pricing that distorts the market. The emergence of chain saw lumber at an average price of US\$150/m³, compared with an average ex-mill quoted price of about US\$250/m³ is an example of market distortion that provides easy access to tertiary operators' wood inputs. MLF is currently implementing policy reforms that seek a market approach to eliminating this source that contributes 90% of wood supply to tertiary operators. Price distortions in the forest sector also explain the expansion in primary and secondary processing which has resulted from the failure of forest fiscal policy to discourage inefficiency in these stages of processing and to remove their protection brought about by a ban on the export of round logs.

3.3.3 Institutions

There is a tendency for forestry institutions to monopolize both the institutional structures and the rules these institutions apply to the trade. The erstwhile Ghana Timber Marketing Board, in the pre-1984 era had the dual role of regulating the timber trade and promoting Ghana's timber species. Commercial trade became its major pre-occupation, making it a master over rather than a servant to the industry.

The Timber Industry Development Division (TIDD) of Forestry Commission, which is a merger between the former Forest Products Inspection Bureau (then responsible for timber inspection, grading and training) and Timber Export Development Board (then responsible for market intelligence, export promotion and industry development), has not been able to address the problem of market promotion and product development in the midst of weak timber trade associations, but is heavily engaged in timber inspection, grading and vetting of export contracts - activities that are resented by industry. The TIDD's perspective explains the institution's involvement in terms of weaknesses in many aspects among a large number of industry participants, particularly those in the small- and medium-scale categories. Weaknesses in production to specification (leading to export claims), contract price negotiation, pure commerce, etc - as well as the lack of capacity among trade associations to assume a regulation of its own trade - are among those cited by the Division.⁹

TIDD's mandate under Act 571 includes "vetting of export contracts." The exercise of this mandate in practice includes the examination and approval of contract prices. The Division issues quarterly guiding prices and has normally approved contract prices within 10% variation below the guiding prices, depending on the merit of each case. The bottom line issue is that TIDD exercises discretion in approving contract prices outside its guiding prices.

From tertiary processors' perspective, TIDD has no role in commerce. They do not see any relevant role for TIDD in raw material selection, quality control or marketing (including pricing). They also consider the existing regulations in these areas as impediments and often costly. Tertiary operators consider quality control as a technical discipline that is the responsibility of their technical (industrial engineering) staff.

⁹ According to TIDD, export claims, estimated to be about 15% of export value in the early 1990s has been reduced to about 7% by 1999 as a result of its regulatory intervention.

TIDD's inspection does not contribute value, but does cost at times enterprises who must incur some transaction cost in the process of securing TIDD staff to issue inspection certificate, especially as they are on "beat", and not attached to operators to issue certificates. Tertiary operators can at times run the risk of missing shipping dates and these risks are avoided at extra costs. They are indifferent to the roles of checking conformity to export contract terms, but find standards verification and export promotion relevant functions for the institution.

Institutions and the regulations they introduce take considerable administrative resources to review. Regulatory constraints and consensus on reform may be easy to identify and reach respectively, but the legal backing to the necessary institutional reform has always been a long process.

3.3.4 Markets

Overseas temperate markets are largely characterized by market criteria that place emphasis on conformity to consumer specification and prompt delivery. With the exception of construction timber, tropical species face little competition from temperate substitutes. However, in the European market, Ghana's traditional markets - wooden household goods and other higher value wood products - face stiff competition from Asian exporters. In the UK, for instance, the market preferential treatment enjoyed by Scanstyle under the African-Caribbean-Pacific convention is now counter-balanced by the new environment experienced by Asian exporters under WTO protocols. Under this new market condition, the company attributes maintenance of its market share only to its name (built on quality and reliable delivery).¹⁰

Tertiary processors concede that their businesses are less market-oriented, and that they are "unable to technically manage production to meet consumer specifications;" while FAWAG is also weak in many respects"¹¹ They see market promotion and product development as a joint public-private sector effort. In the past, government-led exhibitions in overseas markets have ended up turning opportunities into a paradox as exhibitors failed to deliver.¹²

The weaknesses of tertiary operators have been identified as the immediate cause, but the supporting environment for emergence of 'performers' had also been absent. The EU-Assisted Wood Sector Development Project is particularly addressing the constraint of limited exposure to markets and management through assistance in business plan development.

A 3% Forestry Commission levy charged on exports is resented by wood product exporters.¹³ For tertiary operators who are largely characterized as "barely surviving,"

¹⁰ Scanstyle's success in marketing Ghana's Teak against a more popular "Burmese" Teak species is a good example.

¹¹ "Ghana Wood Industry and Log Export Ban Study;" Forestry Commission, 2001; pg 17-18

¹² This paradox resulted from wrong marketing strategies that this not recognize inability of suppliers to respond in the short term to large orders of pre-finished wood products; nor did the market promotion effort recognize the need to progress along a learning curve of developing products from the intermediate stages, having won the appeal in Ghana's tropical species.

¹³ This consists of a 1% off-shore levy (formerly extracted by TEDB) and 2% local levy (extracted by the former FPIB). The TEDB and FPIB are now merged as Timber Industry Development Division (TIDD) of Forestry Commission,

the levy is a significant disincentive, as it is based on turnover. This constraint is accentuated by a special export levy (National Reconstruction Levy) imposed on forest product exports under government's 2001 budget. A 10% levy imposed on all exports in 2001 was reduced under the 2002 budget to 7% on lumber and 3% on other wood products.

It is observed that Federated Association of Ghanaian Exporters (FAGE), the umbrella organization of export trade associations, has a wide outreach network to provide comprehensive marketing and promotional services for its members, including FAWAG. However, FAWAG will need a repositioning and appropriate institutional re-organization with the right personnel to be able to absorb the opportunities offered by FAGE. The role of the umbrella organization is not limited to collaboration at the trade association level. Services to individual potential tertiary operators can be provided, but can also be enhanced by a strong technical support by FAWAG to the umbrella body.

3.3.5 Training in skills

The poor quality of training infrastructure is a factor limiting development of middle-level skills and competitive standards that are necessary to support export of high value added wood products. The wood industry generally lacks middle-level managers who are professionals and can contribute to production and engineering decisions.

The Wood Industries Training Centre (WITC) also lacks professional technical trainers to train the required human resources for industry. Its training programs initiated since the mid 1990s miss the required emphasis, and do not reflect the Center's mission of establishing itself as the "Center of Excellence in the West African Sub-Region." This limitation is largely attributed to the Center's status as a "public institution" that has the unique characteristic of central controls.

A study that considers private ownership as an option also suggests the training of sheer numbers of artisan grade personnel (the supply-driven approach) as opposed to the more desirable selective semi-professional or professional personnel (industry demand-driven approach) is an influence of the public institutional environment.¹⁴

There is a phenomenally high staff turnover among skilled personnel in the wood industry. This has led to a contention among entrepreneurs that sponsoring training will go to waste as the worker is not likely to stay on after acquiring new skills (Courtesy AGI, 1996). While this has contributed to low patronage of training, the poor performance of forestry training infrastructure has also contributed to industry's misconception that "training relates poorly to industrial performance" (Courtesy AGI, 1996).

3.3.6 Regulations affecting the wood products trade

Supply of wood material to tertiary operators is both a short- and long-term constraint. The short-term constraint relates to the non-availability of the "traditional species" which

¹⁴ Reference: "Wood Industries Training center and College of renewable Natural Resources: Studies of Business Options". FSDP 2001

are the backbone of tertiary wood exporters. In the long-term, access to Lesser Used Species (LUS) is an issue.

Tertiary operators with an export record have developed their export base on “traditional species” rather than on “products”. Yet, the species acceptable to overseas temperate markets (the traditional species) are those exported by secondary processors. The general over-concentration of these same species in exports of secondary processors limits tertiary processors’ access to wood raw material. Where, on the other hand, there is a willingness of secondary processors to sell to the domestic market, the sellers’ specifications do not meet the tertiary processors’ requirements.

This is the result of fiscal policy deficiencies that permit the export of intermediate products at a higher opportunity cost than delivering it on the domestic market. Secondary processors are also compelled to recover exportable grades from lower grade materials as a result of what they term as “quick response to sudden change in government policies and legislation”.¹⁵

The emergence of chain saw lumber is an opportunity for tertiary operators, but is also based on wrong policies, the correction of which - other things being equal - will cause wood supply constraints to re-emerge.

Substitute species - the Lesser Used Species – having a greater potential for absorption in regional markets are also limited on the market partly as a result of Forestry Commission’s own forest regulations in utilization. These encourage harvesters to remove species of their choice, as they are not under any compulsion to remove every tree allocated. The regulations also have no market objectives, as Forestry Commission’s selection of species for harvesting in the year is not based on market demand.

There is a divergence between inclination of academic researchers at the Forestry Research Institute of Ghana (FORIG), on the one hand, and practical approaches and needs of industrialists, on the other. Limitation of funds is also another factor explaining the lack of sufficient research into the utilization of the Lesser Used Species. Further, there is the poor industry attitude towards research, and thus no fund support from industry, to engage FORIG in a minimum research work to facilitate transfer of know-how. With these limitations, there has emerged a research output-application gap and, consequently, industry’s low recovery rates in kiln-drying and further processing. This also means high production costs of processing these substitute species.

These constraints to market supply make a review of the regulations a relevant long-term issue for development of high value-added wood product exports, particularly in the LUS. The limited availability of LUS has been cited in various reviews of the EU-supported Wood Sector Development Program launched in 1999 to provide, among other things, incentives for development of exports in Lesser Used Species.¹⁶

¹⁵ The occurrence of this latter phenomenon is diagnosed in “Integrated Industrial Development Support Programme For The Forestry Development master Plan of Ghana: Part 1- Technical Report: Analysis of the Forestry and Wood processing System”; UNIDO (Report No. US/GHA/94/077; July 1996

¹⁶ Quarterly Reports of Technical Assistance To The Woodworking Sector Development Programme; May, 1999-June, 2001

3.3.8 The Timber Resources Management Act, 1997 (Act 547)

The Act provides that 20% of secondary processors' output should be sold on the domestic market. But this provision has no moral basis if it is intended to compel producers. Any regulation backing the provision is a blunt instrument as the provision can only work under price controls, the very instrument policy is moving away from. The intention of government to address wood supply to the domestic market is good, but the methodology is inappropriate.

3.3.9 Inspection controls of the domestic trade

Control of the timber trade after primary stages of forest harvesting by forest sector agencies, on the one part, is not acceptable to both MoTI and tertiary processors, on the other. Perspectives of the two stakeholder groups are different. Regulation of the trade beyond the forest gate is considered by MoTI to run counter to its policy of domestic trade liberalization. There is, however, said to be an understanding between the two Ministries that mandates MLF to have an oversight responsibility for the domestic trade in timber and wood products (Courtesy MLF). The issue is how to deregulate the trade and maintain a system of the forest industry accounting for and tracking its source of material.

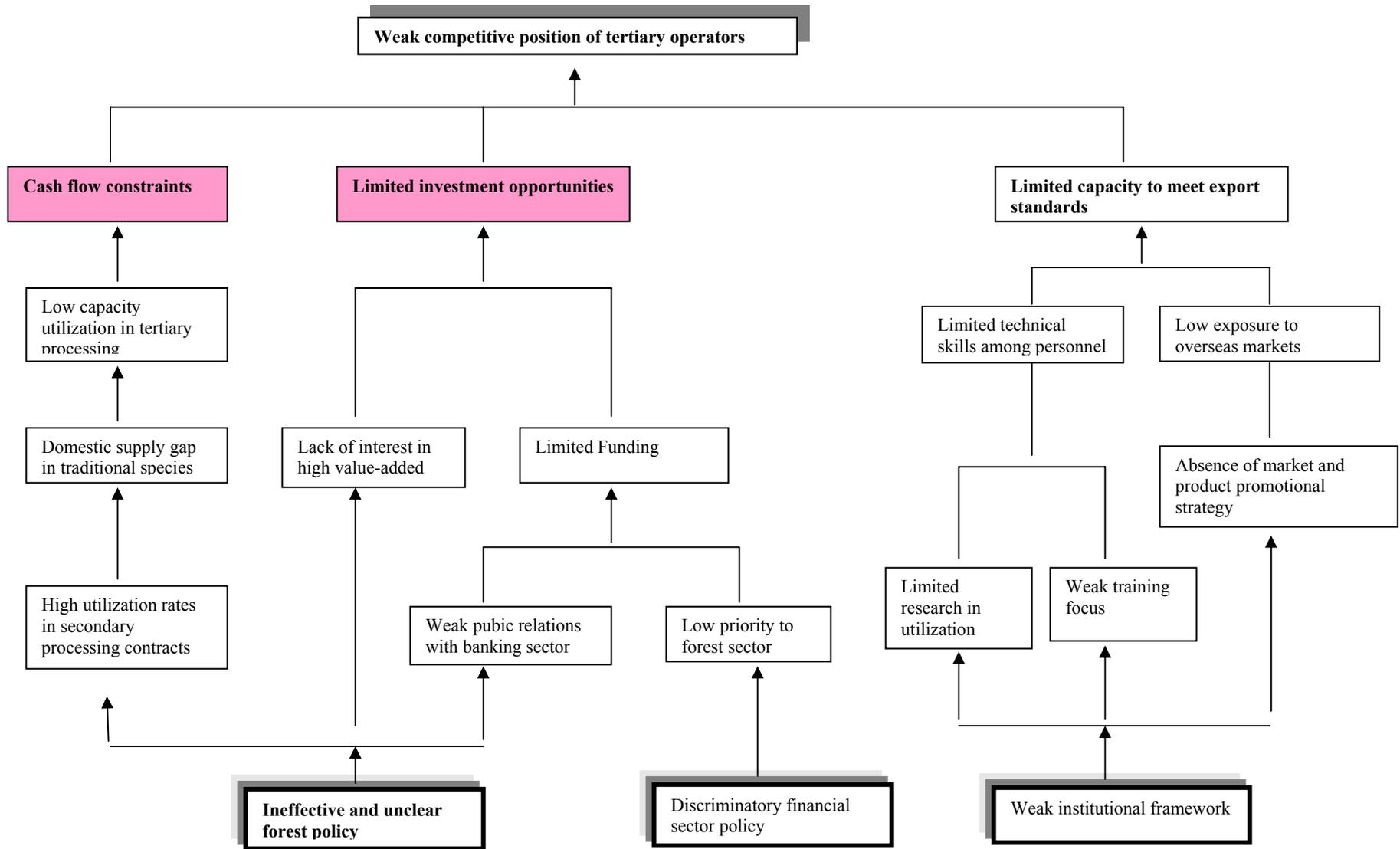
4.0 CONCLUSION

The constraints impeding promotion of high value-added wood product exports emerge immediately from ineffective forest policies that provide the wrong signals that have encouraged expansion of primary and secondary processing, to the disadvantage of tertiary processing. Beyond this, the financial sector policies prevent tertiary operators, now moving to the brink of insolvency, to access credit on suitable terms. The macro-economic outlook is also a constraint to the export drive, as exporters tend to lose in the short-term when domestic prices overrun exchange rate adjustments

The lack of clarity of forest policy and its failures have brought about the existing cash flow constraints faced by tertiary operators, while the financial sector policies that crowd out the wood sector have limited opportunities opened to tertiary operators for investment.

On institutions and the regulations they employ, it is observed that their public institutional status brings little value-added to tertiary operators' businesses and can sometimes be costly. They tend to over-look or operate without industry focus; and they are always subject to government budget controls. The result is that there is limited research into potential LUS substitutes; the training focus is not determined by industry needs and therefore is wrong, while the weaknesses of the TIDD explains the absence of a market and product promotion strategy. The wrong training focus has resulted in limited technical skills and inefficiency in processing, while the absence of a promotional initiative explains tertiary operators' low exposure to international markets. The limited capacity to meet export standards observed among tertiary operators is an indication of these outcomes.

The weak competitive position of tertiary operators is a combined result of the policy, institutional and regulatory environment governing their operations. A problem tree analyzing the cause-effect relationship is presented on the next page.



TERTIARY WOOD PROCESSING ENVIRONMENT: PROBLEM TREE

5.0 SUGGESTED ACTIONS TO REMOVE CONSTRAINTS

The following actions are recommended to address constraints identified under this brief:

5.1 Short-term recommendations

- (a) Implementing policy instruments that will remove market distortions as a means to re-directing wood material resources to their best uses. This will initially be based on “species” and not a wholesale protection of the tertiary industry;
- (b) Developing a re-tooling program and financial arrangement for tertiary processing. This should provide short-term adjustments to the missing financial plan in the Forestry Master Plan;
- (c) Identifying firms with export records or the potential to respond in the short-term to export orders to develop business plans, which may include market assessments, species and product selection, technical upgrading of processing equipment and technical management proposals;
- (d) Forming export groups –“Guilds” that will have one voice in identifying and solving problems and that will be more favorable to overseas buyers;¹⁷
- (e) Implementing Forestry Commission’s log tracking system and simultaneous de-regulating commercial aspects of the trade;
- (f) Implementing a fiscal review that will assess the overall wood sector taxation;
- (g) TIDD developing an interface with FAGE in export promotional programs
- (h) Seeking overseas training for a core of trainers under a technical assistance program. The core trainers can be identified from the outputs of Institute of Renewable Natural Resources that trains professional wood technologists and wood scientists

4.2 Medium-term recommendations

- (a) Strengthening of the capacity of FAWAG to be a responsive trade association;
- (b) Reviewing forest regulations to permit a market responsive approach to harvesting of timber;
- (c) Exploring options for direct private sector participation in the establishment and control of a pragmatic training infrastructure whose programs are demand-driven;
- (d) Developing and implementing a comprehensive financial and technical assistance program towards encouraging potential high value wood processing enterprises to reposition themselves as Export Free Zone enterprises;
- (e) TIDD devolving commercial functions to the private sector and focusing on standards enforcement and market development;
- (f) Developing a cluster program that links technical assistance to the wider sub-sector and focusing export potentials on both identified niche markets and the general market for engineered wood products. This a medium-term program that expands the scope of 5.1 (d) above
- (g) Maintaining a stable macro-economic environment; and

¹⁷ This recommendation is suggested by Donald Luberk, Furniture Consultant (Ref: “Action Plans For The development of The Ghana Furniture Industry, D. Lubeck, Amex Int., Inc/USAID/HRDA; April, 1997

- (h) Carrying out a comprehensive legislative review to harmonize investment, financial and export drive objectives

Annex 1: ACRONYMNS

| | |
|-------|--|
| AGI | Association of Ghanaian Industries |
| CEPS | Customs Excise and Preventive Service |
| DFID | U.K Department For International Development |
| EU | European Union |
| FAGE | Federated Association of Ghanaian Exporters |
| FAWAG | Furniture And Wood products Association of Ghana |
| FC | Forestry Commission |
| FORIG | Forestry Research Institute of Ghana |
| FPIB | Forest Products Inspection Bureau |
| FSDP2 | Forest Sector Development Project, Phase 2 |
| ITTO | International Timber Trade Organization |
| LUS | Lesser-Used Species |
| MLF | Ministry of Lands and Forestry |
| MoTI | Ministry of Trade and Industry |
| TEDB | Timber Export development Board |
| TIDD | Timber Industry Development Division |
| UNIDO | United Nations Industrial Development Organization |
| USAID | United States Agency for International development |
| WITC | Wood Industries Training Centre |
| WTO | World Trade Organization |

Annex 2: LIST OF MAJOR ACTIVITIES UNDERTAKEN

1. Consultations with FAWAG Secretariat, Accra and Kumasi office
2. Administration of questionnaire with 10 key Players of tertiary Wood sub-sector
3. Briefing sessions and discussions with officials of Ministry of Lands and forestry and Ministry of Trade and Industry
4. Meeting with Forestry Commission's counterpart personnel on Wood Sector Development Programme, Takoradi
5. Meetings and second-level consultation with tertiary sub-sector stakeholders (Accra Group)
6. Meetings and second-level consultation with tertiary sub-sector stakeholders (Kumasi Group)
7. Meeting with Federated Association of Ghanaian Exporters
8. Literature review

Annex 3: LIST OF STAKEHOLDERS AND OTHER PERSONS CONTACTED

| | |
|-----------------------------------|---|
| Messrs Agyarko Tabi/Tweneboah | Ministry of Lands and Forestry |
| Mr. Dan Hagan | Ag. Director, PPM, Ministry of Trade and Industry |
| J.P. Peprah | Executive Director, Timber Industry Development Division, Forestry Commission |
| Mr. Coleman, FC, Takoradi | (Counterpart personnel, EU-Assisted Wood Sector Development Program, Forestry Commission) |
| Mr Adams Henanku | Foreign Operations Department, Bank of Ghana |
| <u>Tertiary Industry, Accra</u> | |
| Col. H.L. Ofosu-Appiah, | Pergamont Limited |
| Mrs Alice Akiwumi | Art Deco |
| Nene Kodzi | Terravyne Ltd |
| S. Ayison | Scanstyle Ltd |
| Kwame Ofori | Irroko Ltd |
| Frank Nana Enos | Executive Secretary, FAWAG |
| <u>Tertiary Industry, Kumasi:</u> | |
| K. A. Bediako | Kaparo Ent, Kumasi |
| K.A. Agyeman | Baffour Investments Ltd |
| Kwadwo Poku | Progressive Wood works Ltd |
| Christopher Dadzawah | Regional Executive Officer |
| Gillian Heathcote | Relationship manager, FAGE |

Annex 4: REFERENCES

1. Integrated Industrial Development Support Programme For The Forestry Development Master Plan Of Ghana; Part 1: Technical Report: Analysis of The Forestry And Wood Processing System; Agro-based Industries branch, Industrial Sectors and Environment Division, UNIDO; 1997
2. Impact of Increased utilization of Lesser-Used Species; ITTO Project No. PD33/95; Various Reports
3. Action Plans For The Development of The Ghana Furniture Industry; D. Lubeck; AMEX Int/USAID/HRDA/AGI/MoTI/MLF/TEDD; April, 1997
4. Forestry Sector Synthesis Study; AGI, 1997
5. Quarterly Reports of Technical Assistance To The Woodworking Sector Development Programme; May, Kilkenny Development Partners and Vernon Associates; 1999-June, 2001
6. Ghana Wood Industry and Log Export Ban Study; G. Birikorang (Study carried out for Forestry Commission under DFID Sponsorship); 2001
7. Legislation:
 - (i) Ghana Investment Promotion Act, 1994 (Act 478)
 - (ii) The Export Import Act, 1995 (Act 503)
 - (iii) The Free Zone Act, 1995 (Act 504)
 - (iv) Timber Resources Management Act, 1997 (Act 547)
 - (v) The Forestry Commission Act, 1999 (Act 571)